

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 SOE-02 AID-05 CEA-01
CIAE-00 DODE-00 EB-08 DOE-15 H-02 INR-10 INT-05
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FM AMEMBASSY LONDON
TO SECSTATE WASHDC 8787
TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION GENEVA
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USEEC ALSO FOR EMBASSY
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DEPARTMENT PASS FEDERAL RESERVE BOARD; TREASURY FOR
DONALD E. SYVRUD, OASIA

E.O. 11652: N/A
TAGS. EFIN, UK
SUBJECT: PARLIAMENTARY EXCHANGE ON REVISIONS IN THE PE-
TROLEUM REVENUE TAX

REF: LONDON 12329
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THE TIMES REPORTS THESE STATEMENTS WERE MADE FOL-
LOWING THE ANNOUNCED CHANGE IN THE PRT BY JOEL BARNETT,
CHIEF SECRETARY OF THE TREASURY (SEE REF.).

QUOTE:

MR. TOM KING, OPPOSITION SPOKESMAN ON ENERGY (BRIDGEWATER,
C) -- WE HAVE ALWAYS PLACED THE GREATEST EMPHASIS ON A

PROPER TAX REGIME AS THE WAY OF SECURING FOR THE NATION BENEFITS FROM NORTH SEA OIL, RATHER THAN THE GOVERNMENT'S OBSESSION WITH BRITISH NATIONAL OIL CORPORATION AND INCREASING ITS POWERS. WE ACCEPT THERE IS CLEAR SCOPE FOR ADJUSTMENTS TO THAT TAX REGIME.

WILL HE CONFIRM THAT THE ANNOUNCEMENT WILL AMOUNT TO SOME EXTRA 2,000 MILLION POUNDS TO 1985? AS THE GOVERNMENT'S ESTIMATE IS SOME 25,000 MILLION POUNDS OVER THAT PERIOD IT WILL ADD SOMETHING UNDER 10 PERCENT TO THE PRESENT YIELD.

THE EFFECT OF THE CHANGE HE HAS MADE WOULD HAVE LITTLE EFFECT ON THE MAJOR DISCOVERIES THAT HAVE ALREADY BEEN MADE FOR WHICH CONTRACTS HAVE BEEN SIGNED BUT COULD BE DAMAGING TO THE SMALLER DISCOVERIES WHICH ARE LIKELY TO MAKE UP THE BULK OF FUTURE DISCOVERIES IN THE NORTH SEA.

IS IT NOT UTTERLY CHARACTERISTIC OF THE GOVERNMENT'S APPROACH IN THIS MATTER THAT THEY PRODUCE A WHITE PAPER ON HOW TO SPEND ALL THE UNTOLD RICHES THAT WILL FLOW TO THE NATION FROM THE NORTH SEA AND ONLY MONTHS LATER ADDRESS THEMSELVES TO HOW THEY WILL RAISE THE REVENUE?

MR. BARNETT -- AS A MEMBER OF THE FORMER GOVERNMENT THAT VIRTUALLY GAVE AWAY THE NORTH SEA I TAKE IT THAT HE IS NOW IN FAVOUR OF AN INCREASE IN THE TAX. I AM GRATEFUL FOR THAT. I NOTE HE THINKS 2,000 MILLION POUNDS IS NOT

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ALL THAT MUCH. I THINK IT WILL BE HELPFUL TO THE FUTURE LABOUR GOVERNMENT'S HANDLING OF THE ECONOMY.

AS TO THE PROPOSALS BEING DAMAGING TO SMALL DISCOVERIES, THERE ARE ADEQUATE SAFEGUARDS AVAILABLE TO ENSURE WE DO NOT DAMAGE THE NATIONAL INTEREST. WHAT IS REQUIRED IS THAT THERE SHOULD BE A CLEAR BALANCE BETWEEN THE NATIONAL INTEREST AND THE INTERESTS OF THE OIL COMPANIES. THAT IS WHAT THIS SEEKS TO DO.

MR. JOHN EVANS (ABERDARE . 5?) -- THE PEOPLE OF BRITAIN WOULD WISH TO SEE OFFSHORE OIL DEVELOPED FOR THE INTERESTS OF THE COMMUNITY AS A WHOLE. MANY PEOPLE THINK THAT THE WAY THE CONSERVATIVE GOVERNMENT ALLOCATED LICENSES WHEN THEY WERE IN POWER WAS LIKE A NORTH SEA BUBBLE, SIMILAR TO THE SOUTH SEA BUBBLE OF HISTORY.

MR. BARNETT -- WE TOOK GREAT CARE OVER THE INCREASE IN PRT. WE HOPE TO HAVE FURTHER DISCUSSIONS WITH THE OIL COMPANIES. I AM SURE THE COOPERATION THERE HAS BEEN BETWEEN THE GOVERNMENT AND THE OIL COMPANIES WILL CONTINUE IN THE FINE WAY IT HAS IN THE PAST.

MR. JOHN PARDOE (NORTH CORNWALL, L) -- WHAT WILL THE
REVENUE FROM NORTH SEA OIL BE UNDER THE NEW TAX REGIME
IN THE NEXT FINANCIAL YEAR COMPARED WITH WHAT IT WOULD
HAVE BEEN HAD THE CONSERVATIVE PARTY'S TAX REGIME STILL
BEEN IN FORCE?

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THIS GENERATION OF POLITICIANS WILL BE JUDGED NOT BY
HOW MUCH OF THE NORTH SEA OIL REVENUES GO TO REDUCING
TAXATION OR INCREASING WELFARE BENEFITS BUT BY HOW FAR WE
USE THEM TO ESTABLISH A SOUND AND FIRM INDUSTRIAL BASE
FOR OUR CHILDREN AND GRANDCHILDREN.

MR. BARNETT -- I AGREE THAT WE SHOULD ENSURE THAT WHAT-
EVER WE GET FROM NORTH SEA OIL IS USED FOR THE BENEFIT
OF THE NATION IN CREATING THE RIGHT KIND OF ECONOMIC

BACKGROUND.

AS TO HOW MUCH WOULD HAVE BEEN OBTAINED HAD THE OP-
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POSITION'S TAX REGIME BEEN IN FORCE I SHUDDER TO THINK
WHEN I REMEMBER THEIR CRITICISM OF VIRTUALLY EVERY ELE-
MENT OF THE TAX STRUCTURE WHEN THE TAXATION BILL WAS FIRST
INTRODUCED.

MR. TAM DALYELL (WEST LoTHIAN, LAB) -- DOES THIS PACKAGE
AND THE DEDUCTABILITY OF PRT AND CORPORATION TAX IN PAR-
TICULAR HELP TO SOLVE ONE OF THE PROBLEMS, WHICH IS THAT
OF EXPLORING THE SMALL FIELDS OF MARGINAL VALUE IN A
RATIONAL, LONG-TERM SEQUENCE? WILL THESE FINANCIAL MEAS-
URES HELP THAT PROBLEM?

MR. BARNETT -- THERE ARE MORE THAN ADEQUATE SAFEGUARDS
AVAILABLE TO THE GOVERNMENT. WE ARE MORE THAN WILLING
TO USE THEM TO ENSURE THAT THE NATIONAL INTEREST IS
TAKEN INTO ACCOUNT IN THE DEVELOPMENT OF THE SMALL FIELDS.

MRS. MARGARET BAIN (EAST DUNBARTONSHIRE, SCOT. NAT) --
THE FIRST LICENSES ALLOCATED BY A BRITISH GOVERNMENT TO
THE NORTH SEA OIL COMPANIES WERE UNDER A LABOUR ADMINIS-
TRATION IN THE LATE 1960S AND THESE WERE HANDED OUT
CHEAPLY.

WHEN DOES THE TREASURY EXPECT TO ANNOUNCE WHAT IT
WILL DO WITH THE EXTRA FUNDS? CAN WE EXPECT LEGISLATION
ON THE QUESTION OF THE OIL FUND AND ENVIRONMENTAL GUARAN-
TEES FOR THE AREAS AFFECTED BY OIL DEVELOPMENT?

MR. BARNETT -- THE PROCEEDS FROM PRT AND ALL TAXATION
WILL BE USED SENSIBLY AS THIS GOVERNMENT HAS BEEN DOING
FOR THE PAST 4-1/2 YEARS.

MR. WILLIAM HAMILTON (CENTRAL FIFE, LAB) -- WILL HE CON-
SIDER PUBLISHING THE PROFITS OF THE OIL COMPANIES IN
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EACH OF THE PAST FIVE YEARS AND THE TAX PAID BY THEM?
HOW DOES THIS TAX REGIME COMPARE TO THAT OF COMPARABLE
COUNTRIES ABROAD? DOES HE THINK THAT THE REGIME, WHICH
MANY OF US THINK IS TOO LIBERAL TO THE COMPANIES IN ANY
EVENT, WILL FRIGHTEN THE OIL COMPANIES AWAY FROM THE
NORTH SEA?

MR. BARNETT -- I DO NOT BELIEVE IT WILL FRIGHTEN THE OIL COMPANIES AWAY. THEY GENERALLY RECOGNIZE THAT THE POSITION SO FAR HAS BEEN GENEROUS AND IT IS STILL REASONABLE IN THE RETURN IT WILL ALLOW OIL COMPANIES. PUBLISHING THE PROFITS AND TAXES OF INDIVIDUAL TAXPAYERS IS NOT PART OF OUR SYSTEM.

MR. TREVOR SKEET (BEDFORD, C) -- THIS IS JUST A PIECE OF WINDOW DRESSING FOR THE NEXT GENERAL ELECTION WHICH THE GOVERNMENT WILL NOT BE IN A POSITION TO IMPLEMENT. THE PETROLEUM INDUSTRY AND THE USERS OF OIL ALREADY PAY

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3,000 MILLION POUNDS WORTH OF TAXATION A YEAR, ROUGHLY
8 PERCENT OF TOTAL REVENUE.

INFLATION IN THE NORTH SEA IS BETWEEN 12 AND 15 PER-

CENT AND THE RETURN ON THE NINIAN FIELD IS NO MORE THAN ABOUT 16 PERCENT.

MR. BARNETT -- I AM NOT SURE ABOUT IT BEING WINDOW-DRESSING. WE HAVE A LONG TIME BEFORE THE GENERALELECTION IN OCTOBER, 1979. WE ARE MAKING SURE THAT A FAIR SHARE OF THE PROCEEDS OF NORTH SEA OIL ACCRUE TO THE PUBLIC. IT IS TRUE THAT OIL COMPANIES ALREADY PAY A FAIR AMOUNT UNCLASSIFIED

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OF CORPORATION TAX BUT UP TO MARCH 31, 1978, THEY HAVE NOT PAID ANY PRT.

MR. NIGEL FORMAN (SUTTON, CARSHALTON, C) -- IT IS PREFERABLE TO TAKE THE NATION'S SHARE OF THIS SURPLUS WEALTH BY A TAX ON PROFITS RATHER THAN THROUGH UNLAWFUL AND BACKDOOR INTERVENTION BY THE BNOC.

MR. BARNETT -- I DO NOT KNOW WHAT HE IS TALKING ABOUT. BNOC WAS SET UP BY LEGISLATION AND IS NOT DOING ANYTHING UNLAWFUL NOR IS IT USING BACKDOOR METHODS.

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